97-84015-25

Duncan, Carson Samuel

The place of premiums in a distributive organization

[Paterson, N.J.]

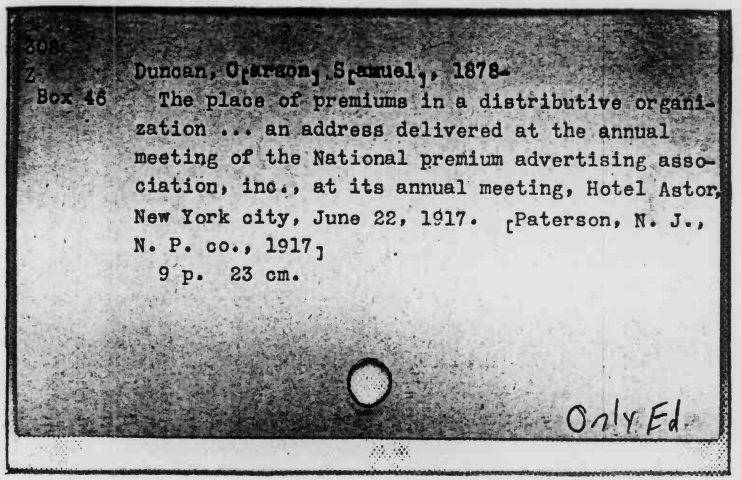
[1917]

97-84015-25
MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES
PRESERVATION DIVISION

BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD


308
Z
Box 46
Duncan, C[arson] S[amuel], 1878-
The place of premiums in a distributive organization ... an address delivered at the annual meeting of the National premium advertising association, inc., at its annual meeting, Hotel Astor, New York city, June 22, 1917. [Paterson, N. J., N. P. co., 1917]
9 p. 23 cm.
Only Ed

RESTRICTIONS ON USE: *Reproductions may not be made without permission from Columbia University Libraries.*

TECHNICAL MICROFORM DATA

FILM SIZE: 35mm REDUCTION RATIO: 9:1 IMAGE PLACEMENT: IA (IIA) IB IIB

DATE FILMED: 2-6-97 INITIALS: MS

TRACKING # : 21043

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.

Bop

Gift of the President

JUL 26 1917

The Place of Premiums in a Distributive Organization

By

Prof. C. S. Duncan

Lecturer in Commercial Organization
of the University
of Chicago

308
N
Bar v. 46

An address delivered at the
Annual Meeting of the National Premium
Advertising Association, Inc.
at its Annual Meeting
Hotel Astor, New York City
June 22, 1917

Addresses were made at the Annual Banquet *of the* National Premium Advertising Association

By

HON. WALTER E. EDGE
Governor of New Jersey

On the subject of

"The Value of Advertising to a Nation in Times of War."

HON. GEORGE E. ROBERTS
Vice-President of the National City Bank and former Director of the United States Mint.

ON

"Conservation and Thrift"

HON. FRANK T. WOLCOTT
of the N. Y. Bar

ON

"The Premium Industry.—What it Is and What it Does."

HERBERT S. HOUSTON
Ex-President of the Advertising Clubs of the World

ON

"The Truth in Advertising."

Copies of any of the above may be had on application to

HARRY B. HAINES, *Sec'y*
NATIONAL PREMIUM ADVERTISING ASSOCIATION INC.
2 West 45 St., N. Y. City

NOV. 17, 1917 ART

The Place of Premiums in a Distributive Organization

BY PROF. C. S. DUNCAN
Lecturer in Commercial Organization of the University of Chicago

WHEN one takes up a modern business problem he generally finds that its ramifications extend to almost all parts of the business world, so that hunting for an answer to a question of modern merchandising is like searching for the proper end of a tangled skein. It becomes exceedingly difficult to follow through all the influences and counter-influences that will affect the final answer. In almost every case, however, a careful preliminary analysis is needed. A famous American statesman once opened his address with the announcement of a principle which applies equally well to politics and to business. He said: "We must know where we are and whither we are trending, in order that we may know what to do and how to do it." It is proposed here to follow this good advice and to discuss the subject of the place of premiums in the distributive organization by; (1) Following the rise of the present distributive organization; (2) discussing the character of the consumer market; (3) describing the fight for the control of the consumer market; (4) showing the place of advertising in modern merchandising; (5) placing the premium system in the general advertising effort; and (6) showing the strength and weakness of the premium-giving plan.

THE RISE OF THE PRESENT DISTRIBUTIVE ORGANIZATION

In our efforts to get economic goods from their source to the consumer, we have developed certain mechanisms and devices to facilitate these activities. The mechanisms and devices which have as their purpose the actual distribution of goods, the development of new wants, the bringing of supply in contact with demand are generally known as the distributive organization.

This organization as it exists to-day is the result of evolution. It began in this country in a very simple system. This system is illustrated by such well-known types as the tin peddler, the itinerant shoemaker, the meat peddler, and even by those who carried packs of various commodities from farmstead to farmstead. Very frequently it was the maker or producer of the goods that carried them to the consumer. There cannot be a simpler or more direct method than this, but it is not practicable when conditions become more complex.

The second stage of the development of our distri-

butive organization came when the producer of goods built his shop and owned his tools and his customers came to him. This is generally known as the "bespoke" or custom order market. The raw material out of which the products were made usually belonged to the customer, who brought it to the maker of goods and said to him: "Work up this cloth into garments of such and such a kind," or "make this leather into boots and shoes of such and such a size." When industry was in this stage of development, the maker of goods was also the merchant of goods, but he had no stock and he ran no risk. The significant thing, however, is that he was stationary, that he was permanently located, that the customers came to him, that there was a shop out of which might develop both the factory and the store.

Then came the third stage in the development of the modern business organization, which may be called the retail-shop stage. This means that the maker of goods found a larger market than formerly existed among his friends and neighbors who brought their raw material to be made up. This maker of goods began to anticipate the market and to manufacture before he sold. Out of this condition would develop very naturally a distinction between the maker function and the merchant function. Out of this condition also would come the beginnings of a stock plan. For this maker must know beforehand what sizes and what styles would likely be asked for. But probably more significant still is the fact that when he had stock on hand and a customer came into his shop to buy, there arose a price bargaining, and this manufacturer-merchant became a price bargainer.

The next stage in the development of modern business organization may be called the wholesale order stage. In this stage there was a large stock of goods on hand. The maker of these goods had manufactured large lots, very probably upon orders previously received. There was an earlier anticipation of the market demand. These goods were turned over in large or wholesale lots to an individual whose sole function was that of a merchant. This was the retailer. In this stage of development, there were two price bargains; one between the wholesaler and retailer; and the other between the retailer and the consumer. There was also a greater risk for the retailer who bought his goods in anticipation of the consumer's demand. But in this situation the retailer stands squarely between the wholesaler and the consumer. It is he who knows the consumer market, and it is he who can most definitely forecast what the market will need. It is through him that the orders come to the wholesaler.

The fifth stage in the development of modern business organization is the wholesale speculative stage. The wholesaler, also, now buys goods in anticipation of the market demand; he speculates. Here there are three price bargains. The first is between the manufacturers and the wholesaler; the second is between the wholesaler and the retailer; the third is between the retailer and the consumer. In this stage the risk of business is upon the wholesaler and the retailer. The manufacturer is free from risk because he waits for orders to come.

But even this condition has been greatly modified in late years, because the manufacturer also has speculated as to what the market will demand. To-day the up-to-date manufacturer pre-plans his work. He sets his tasks for six or twelve months ahead and makes goods which he anticipates the market will demand. One great manufacturer set his tasks for five years ahead, and he has been working according to the details of that plan ever since. But upon what basis can the manufacturer pre-plan his work? It is only upon his knowledge of the market, and this knowledge of the market he can receive only through his sales organization. And so long as the wholesaler and retailer stand between him and his market, he must rely upon their anticipation of the market demand. As the condition now stands, therefore, the risk in modern business is shared by retailer, wholesaler, and manufacturer, who are all attempting to forecast what the consumer will ask for.

But risk of this sort always leads to an attempt to control, and out of this condition has come the effort by the manufacturer, by the wholesaler and jobber, by the retailer, to control the consumer market.

The Character of the Consumer Market.

The term "consumer market" simply means the market needs of the people living within a given commercial area. Since the markets in the United States are often National markets, this would mean the market needs of more than one hundred million people. These people are made up of all nationalities, all races and tongues. They are of all ages and all degrees of purchasing ability. But together they have an almost incalculable purchasing power. It is estimated that for the past year the volume of business in the United States reached the unimaginable total of fifty billions of dollars. But no matter whether this market is local or national, it is made up of consumers who are individuals, and every individual is a bundle of habits and prejudices, all of which must be considered in an effort to control his purchases. Every consumer has his defences and his weaknesses, and these must be clearly known in any effort to control his purchases.

To control a consumer demand, therefore, is to control a vast fortune; and whether this control is conscious or unconscious on the consumer's part, the returns are exceedingly great. But it is to be remembered that whoever the consumer is, and wherever the consumer is, he is the point of attack, and consideration is constantly given to his will to resist appeal, to his will to choose among various commodities. For in the modern consumer market there is a vast variety of goods that make an appeal for his attention and his interest. Behind this variety of goods stand the manufacturer, the wholesaler and jobber, and the retailer, all making a mighty effort to control the consumer.

The Fight for Control.

This great effort on the part of the maker of goods and the various sellers of goods is the struggle to get as large a share as possible of this great consumer market. The risks of all these business men have greatly increased, due to the fact that they have anticipated more and more what the consumer will buy. His vast demands have called into being unnumbered articles. They load the shelves of the retailers, wholesalers, jobbers, warehouse men. There are more than the famous fifty-seven varieties of breakfast foods, of soaps, of canned goods, of shoes, of stockings, of automobiles, of kitchen utensils, etc. But in spite of this great multiplication in kinds of goods, the consumer market has increased so much that certain manufacturers, certain dealers and certain retailers, have been able to develop very large establishments. This means that they have massed capital so that they can finance large undertakings and handle vast quantities of goods. This means also they are anxious that the goods which they handle may be identified with their establishments. And hence all these men, interested in producing and merchandising, want the consumer to ask for their special make of goods. The consumer to-day, therefore, does not ask for a breakfast food, but for somebody's breakfast food, not merely for soap, but for X's soap, etc. But how can the consumer ask for a definite brand of goods unless he first becomes familiar with that make? How can he become familiar with the brand of goods unless he is told? It is here that the function of advertising arises.

The Place of Advertising.

Advertising in any business sense means a method of increasing one's sales. It is some sort of an appeal by the manufacturer, middleman or retailer to the consumer. As has been shown, over-lapping markets, increased varieties of goods, and greater productive capacity are the forces lying back of the present fierce struggle for consumer control. All of those engaged

in production and distribution have been using the same sort of weapon, which varied only in style or workmanship. They have spent millions of dollars annually in telling the consumer what to buy, where to buy and when to buy. Advertising has this three-fold duty.

In fulfilling this duty advertising is educating the consumer. But the more the consumer becomes educated the more difficult it becomes to control him, the stronger his defences become. The more numerous the appeals made to him, the less sensitive he is in response. It may be that the consumer who is beset on all sides by advertisements becomes like the man who could not see the forest for the trees.

Increased difficulty in appealing to the consumer, instead of discouraging advertising, serves only as a challenge. The greater the difficulty to control him, the greater the effort put forth. So that after all, advertising may become a kind of vicious circle, a system that tends after a while to defeat its own ends. And therefore, year by year, the fight for consumer control grows fiercer, and advertising expenditures creep up and up and up.

The annual expenditures for advertising in the United States has been reckoned at the inconceivable sum of one billion dollars. And the end is not yet. New and more expensive methods are being sought, until justification is given to the claim of some economists that the firm with the longest purse wins in the advertising game and that, since it is a contest in expenditure, it becomes a great social waste. Latterly, however, more conservative methods are being demanded. It is claimed to be more and more imperative that advertising shall take on the precision of the rifle fire rather than the flock-shot of the old-fashioned blunderbuss.

It was natural and probably inevitable, therefore, that, when the manufacturer came to the consumer, through an advertising medium, and said, "Buy the goods I make;" when the dealers came saying, "Buy the goods I handle," and when the retailer came saying, "Buy the goods I sell," this consumer should make reply, "What do I get out of it, if I buy from you or you or you?" The advertisers had made the consumers thus independent; the difficulty must be upon their own heads. One means for overcoming this difficulty and answering the consumer's pertinent inquiry, is the premium-giving system. It is proposed now to see how this system fits into the general advertising schemes.

The Place of Premiums.

All advertising effort is either to develop, maintain or increase sales. But no ambitious business man is

satisfied with merely maintaining his quota of sales. No business to-day can stand still without going backward. There is everywhere a relentless rising tide of costs. Hence, the most important item in the business world to-day is volume. Business must grow; volume and quick turnover must compensate for increased costs. Growing business means a greater and greater control of consumer demand. How is this control to be increased in the face of this billion dollar concentrated drive by advertisers against the consumer's buying resistance?

National markets and large scale production have meant the loss of the personal element in business. In these days business is business in a higher and higher degree; formerly business was more a matter of personal friendship. My uncle, a little man with a large fund of good sense, was for thirty-five years a druggist in a small country town. He was also guide, philosopher and friend to the whole country-side. To the customers who came into his store he gave not only drugs neatly tied up in pink-colored, perfumed paper, but also large and possibly more wholesome, doses of homely wisdom and barnyard philosophy. His customers came and came again because they knew him and believed in him. Even the patent medicines which he sold were A. W. Duncan's medicine.

But in the larger cities there are to-day many stores that live upon a transient trade. There is no personal relationship. The customer may come in and buy his bit and then he passes on and is forgotten. He may come once; he may come often. He may, or he may not know the maker of the goods that he buys; he certainly does not know the dealers who handle them, or even the retailer who hands them across the counter. And as attendants to this loss of personal relationship have often come suspicion and prejudices.

Then a happy thought occurred to someone; it was to restore in some degree this old-time personal element. In order to do this it was necessary to restore another old-fashioned element of business, *i. e.*, the feeling of mutual advantage in a trade. This is the fundamental principle in premium-giving. "Buy of me for cash," says the premium-giver. "Give me your continuous patronage on a cash basis. My business risks will then become smaller. Then share with me in the saving by taking this premium." Or, "Buy my goods, year in, year out; assure me of your patronage, and share with me in the profit through premiums."

Premium-giving, therefore, is a form of advertising devised to control consumer demand through a restoration of personal mutual advantage in a sale. Like all other forms of advertising it may be used by any-

one of the parties interested in making and selling goods. Like other forms of advertising, too, it has grown to such dimensions that it has given rise to the specialist. Hence, there are premium companies just as there are advertising agencies. The famous third party" in recent cases at law testing the constitutionality of anti-premium legislation is this specialist.

It is not my purpose to discuss statistically the success or lack of success in the use of premiums. My treatment is more abstract and deals with the principles underlying the system. I shall now pass to the general factors connected with it in the popular mind, which have been obstacles to its free development and to a clear understanding of it.

Popular Prejudice.

Like most business ideas, the premium-giving system was not well thought out at first. Indeed, it was probably not at first wholly free from sharp practice. Now there is a broad principle of human life, to which apt expression was given long ago, to the effect that the good a man does is often buried with him, but the evil he has done lives on. That is true of business. For almost a generation the railroads have continued to suffer on account of rebates. The insurance business has only slowly scraped off the barnacles of early disfavor. The old-time lightning-rod agent has given well nigh a perennial black-eye to his business. The department stores even still have clinging to their reputation the aroma of fire sales and remnant sales.

Certainly a grave mistake was early made in the character of the premiums given. They were not high-grade stuff. I know many people who gained this idea of them in their youth and have never changed their minds since. The sooner this reputation is changed the better. All those interested in the system should do their bit in seeing that there is no reason for the continuance of it.

Furthermore, the general principle was not well understood in the early days. Out of this confusion rose the "something for nothing bogey." A new generation, no doubt, will be required to obliterate this bad impression.

It would be most remarkable if the premium business were wholly free from abuse to-day. It offers opportunity for misuse in many ways; in the manner of giving out stamps or coupons and in the manner of redeeming them. Of course, those who are interested in its welfare should work strenuously and consistently for its freedom from abuse. None the less, if it is to endure, the real test will be the soundness of the principle upon which it rests.

To be sound in principle a business practice must

offer a fair return to all parties to the transaction. There are three parties interested; the premium companies, the givers of coupons and trading stamps—*i. e.,* the manufacturer, the middleman, the retailer who uses it for advertising purposes, and the consumer. The growth and multiplication of premium companies offers sufficient evidence of the character of their returns. They are well able to take care of their own interests. The givers of coupons and trading stamps can gain a fair return from the means of increasing trade—if the trade is actually increased. This is a question of fact in each individual case, and must be answered by their own records. It is common knowledge that some have succeeded here. The consumer is given his fair advantage—if his original purchases are a fair return for value, if the premium cost is kept as a part of advertising or sales cost, and if the premiums are useful goods of standard quality as represented. The economist can show no reason why these conditions may not prevail. If they do prevail—and this is an issue of fact to be met only by a thorough investigation—the premium-giving system is commercially sound.

The Appeal in Premiums.

I have elsewhere shown evidence which leads to the conclusion that much of the opposition to premiums must be due to their proved effectiveness. Your competitor, as a general thing, will not be greatly concerned about the ethics of your business practices unless you are taking away his trade. There are many manufacturers and merchants who advertise because they are compelled to, in order to break even in competition. What is the secret of the premium appeal?

The premium is effective because it is tangible. The great mass of people are lacking in imagination; hence the truth of the statement that a bird in the hand is worth two in the bush. For this reason also it is difficult for many people to appreciate the fact that a penny saved is a penny earned. I know a section of country where the farmers cut and haul to town a load of locust posts, or a load of railroad ties through the winter season, when they run out of coffee, sugar, bacon and tobacco. There is an open market for these things in every village, and payment is made either in staples or money. Less is paid in cold cash, of course. Often have I seen a countryman drive into town early on a Saturday afternoon with his load of posts or ties, sell them for cash—big, round, jingly silver dollars—jingle the money in his pocket until toward sundown, then spend it all for groceries and go home with full sense of satisfaction.

This fact is the basis of the power of the premium; it is the concrete and tangible evidence of a return for

patronage. This idea has already been felicitously expressed by the editor of *Novelty News;* "the premium is the concentration and condensation of an invisible vapor called cash discount into a concrete parcel of actual property which the consumer can feel with his fingers."

As to the future, every man's opinion is a guess. I do not pretend to know all the forces working to destroy the premium-giving system as a means of increasing cash sales. I do not pass judgment upon the ethics of the method. My study and analysis has been as dispassionate and unbiased as I could make. The conclusions I have reached are unaffected by personal interest or outside influence. I can only say that the method has had a logical development, has proved wonderfully effective in certain cases at least, is commercially sound in principle, and cannot fairly be isolated from other advertising methods for special adverse legislation.

NPC PATERSON N.J.

MSH 21043

END OF
TITLE